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SUBJECT: CAHORA BASSA HYDRO DAM IN MOZAMBIKAN CONTROL

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¶1. In an emotive 11/27 ceremony in Tete province led by President Armando Guebuza, the GRM formally paid the Government of Portugal the remaining \$700 million of a \$950 million deal for control of the Cahora Bassa hydroelectric dam (HCB) on the Zambezi River. Presidents Robert Mugabe of Zimbabwe, Levy Mwanawassa of Zambia, and Festus Mogae of Botswana, along with Swazi Prime Minister Barnabas Dlamini, South African Vice President Phumzile Mlambo-Ngcuka, Portuguese Finance Minister Teixeira dos Santos and even RENAMO opposition leader Afonso Dhlakama were in attendance.

¶2. In October 2006, representatives of the Mozambican and Portuguese governments signed an agreement providing for the transfer of HCB to the GRM in exchange for \$950 million (reftel), and the GRM made an initial \$250 million payment from its own budget. This past April, the Government of Mozambique granted an international tender to finance the remaining \$700 million to a joint venture consortium formed by Portuguese bank BPI and the French investment bank Calyon.

¶3. With the transfer now completed, Mozambique has 85 percent of the shares of HCB with Portugal retaining 15 percent. The banks will be repaid from HCB's operating revenue, and the consortium has hired Manitoba Hydro of Canada to periodically verify the technical performance of HCB and its continued viability. The financial director of HCB told EconSpecialist on 11/23 that the company makes USD 22 to 25 million per month from the 350mW supplied domestically, 150mW to Zimbabwe and 1775mW to South Africa.

¶4. COMMENT: President Guebuza has referred to the reversion of Cahora Bassa to Mozambique as a "second independence day," underscoring the national pride that Mozambicans feel about taking control of one of the final, most visible examples of the Portuguese colonial influence. It is also noteworthy that the GRM attracted \$700 million in commercial financing for this project, a reflection of the improving business environment in Mozambique. Significant risks remain, however. In order for the GRM to repay the loan, HCB customers have to pay on time, and there is concern that the Zimbabwean government may not be able to do so, as the GoZ presently owes USD 20 million to HCB. END COMMENT.

Chapman